

MINNEAPOLIS EMPLOYEES RETIREMENT FUND
800 Baker Building, 706 2nd Avenue South
Minneapolis Minnesota 55402

TO: Scott Benson, Paul Ostrow, Lisa Goodman, Natalie Johnson Lee, Barret Lane
Paul Zerby (members of the Intergovernmental Relations Committee) and other
interested parties

FROM: Judith Johnson, Executive Director

DATE: September 4, 2002

SUBJECT: Update on MERF Pension Plan

Proposed Legislative Agenda-2003 legislative session

MERF does not propose to present any legislation to the 2003 Minnesota Legislature.

Member Update

As of June 30, 2002 MERF had 552 active City of Minneapolis (city) employees enrolled in the fund. This represents 66% of the total active membership of the fund. The next largest employer is Special School District #1 (school). Approximately 25% of MERF city employees are eligible currently to retire but remain actively employed with the city. 100% of the city MERF employees are eligible to retire on or before 2007.

City of Minneapolis MERF Account

As of June 30, 2001 (the last year final actuarial numbers are available) the MERF fund was 93% funded. As of June 30, 2002 the total city employees contributions held in the account is \$75.022 million (which is 69% of the total employee contributions in the fund). As of June 30, 2002 the city employer contribution is negative \$4.01 million. This compares to the total employer contributions in the fund of \$17.5 million. The school employer account is \$16.5 million which is 95% of the total employer balances. The city intends to issue the first series of a bond offering to provide funding to its account at MERF in late fall of 2002.

City Proposal to Issue Serial Bonds for Pension Liabilities

City finance staff have presented to the MERF board the city plan to issue bonds to satisfy its retirement funding obligations to MERF. MERF is supportive of this approach to satisfy the funding obligations.

Investment Returns

The MERF fund earned a negative return of 7.3% for the year ended June 30, 2002. MERF's total assets were \$1.250 billion as of June 30, 2002. MERF retains Northern Trust as its independent custodian on a three year contract basis. The custodian holds the assets of the fund and calculates both financial returns of the fund and the related performance returns. MERF does not invest directly any funds. MERF employs 9 professional money managers that are selected through a competitive search with the assistance of MERF's investment consultant Ennis Knupp. The consultant, all managers and its custodian are reviewed annually under MERF's due diligence policies. A comparison of the returns of the MERF fund and the State Board of Investments, the manager of PERA assets are attached.

MERF reviews its asset allocation policy every four years. MERF's current asset allocation is 46% U.S. equities, 20% International equities, 4% REITS's (stocks which hold real estate), 30% bonds and 0 cash. The MERF fund has an independent investment panel, which includes the city finance director. Commencing in November 2002 and culminating some time in the summer of 2003, the MERF fund will conduct its review of asset allocation and make any changes that are recommended by its consultant, its investment panel and the MERF board. These meetings are held quarterly and are open to the public. Any member of the city council is welcome to attend.

City Representation on MERF Board

MERF has a seven member board. Five members are elected by MERF's members. The City appoints two members to the board. Currently John Moir is the appointed representative of the Mayor of Minneapolis and Barbara Johnson represents the City Council. The investment panel includes Patrick Born, plus the finance director of the schools. In addition the Asst. Commissioner of Finance for the State of Minnesota is a member. The three private sector members are all pension investment professionals from Minnesota corporations.

MERF Staff

MERF employs Judith Johnson as executive director/chief investment officer. She has been with the fund since May, 1996. A brief biography of the director is attached. In addition MERF employs two accountants. The chief accountant must be a CPA and the staff accountant must pursue and pass the CPA exam within a reasonable period. A benefits manager is retained as an independent contractor- he has 32 years of experience and was a MERF member prior to his retirement. A benefit coordinator handles the computer systems, MERF benefits payments and health care plan enrollments for MERF retirees. The coordinator has been with the fund for 22 years. MERF employs no administrative assistants and each MERF staff member performs the full range of tasks related to their function. MERF outsources the printing benefit payments and mailing functions for its 5,000 monthly retiree checks.